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Strategic Implications of the North American Free Trade Agreement (NAFTA)

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ABSTRACT

The impending North American Free Trade Agreement with Canada and Mexico will bring changes in the trade patterns of our nation. Although the impact will be greatest on the economy, the agreement will also provide a broadened base of resources and expanded political ties that could have important strategic implications. This paper highlights the importance of NAFTA with respect to national security in the areas of raw materials, labor, industrial capacity, the economy, and military cooperation. It also explores the political impact of trade regionalization driven by NAFTA and similar trade agreements. Recommendations for future trade actions are included in the conclusion.

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STRATEGIC IMPLICATIONS
of the
NORTH AMERICAN FREE TRADE AGREEMENT

In this new era of global economic competition, success will come for those nations that have strategic economic vision and a national will to compete. A nation with strategic vision has goals and a comprehensive plan to achieve those goals. A nation with a strong national will has the ability to adapt to change and to accept short term sacrifice for long term gain. The alternatives can be dramatic. As we have seen in the demise of the Soviet Union, a centrally controlled economy is relatively inflexible and has limited ability to compete in the world market. The lack of economic strength was a large, contributing factor in the collapse of that nation.

In the United States, the idea that national (and military) strength is closely linked to economic strength is well accepted. As President Eisenhower noted in 1953, "The relationship ... between military and economic strength is intimate and indivisible."[1] The United States actively seeks economic growth through world trade and is a leader in promoting free trade. One of the most progressive arrangements achieved in recent years has been the pending North American Free Trade Agreement (NAFTA) with Canada and Mexico. NAFTA is a wide ranging economic treaty that may have extensive long term political and national security impact. This paper will explore the overall strategic security implications of NAFTA.

NATIONAL SECURITY STRATEGY AND TRADE

As an element of policy, we include international trade as an important factor in our economy and perhaps even more critically, in a supporting role for our political goals. [2] We are committed to a free trade policy that will not only improve our domestic economy, but will lead to an improved global economy. An improved global economy brings with it increased stability directly supporting our national goal for "healthy, cooperative, and politically vigorous relations with allies and friendly nations." [3] As one of several international trade initiatives, NAFTA is the most progressive and potentially has the greatest strategic impact. Robert B. Zoellick, Under Secretary for Economic and Agricultural Affairs, described the impact of NAFTA as:

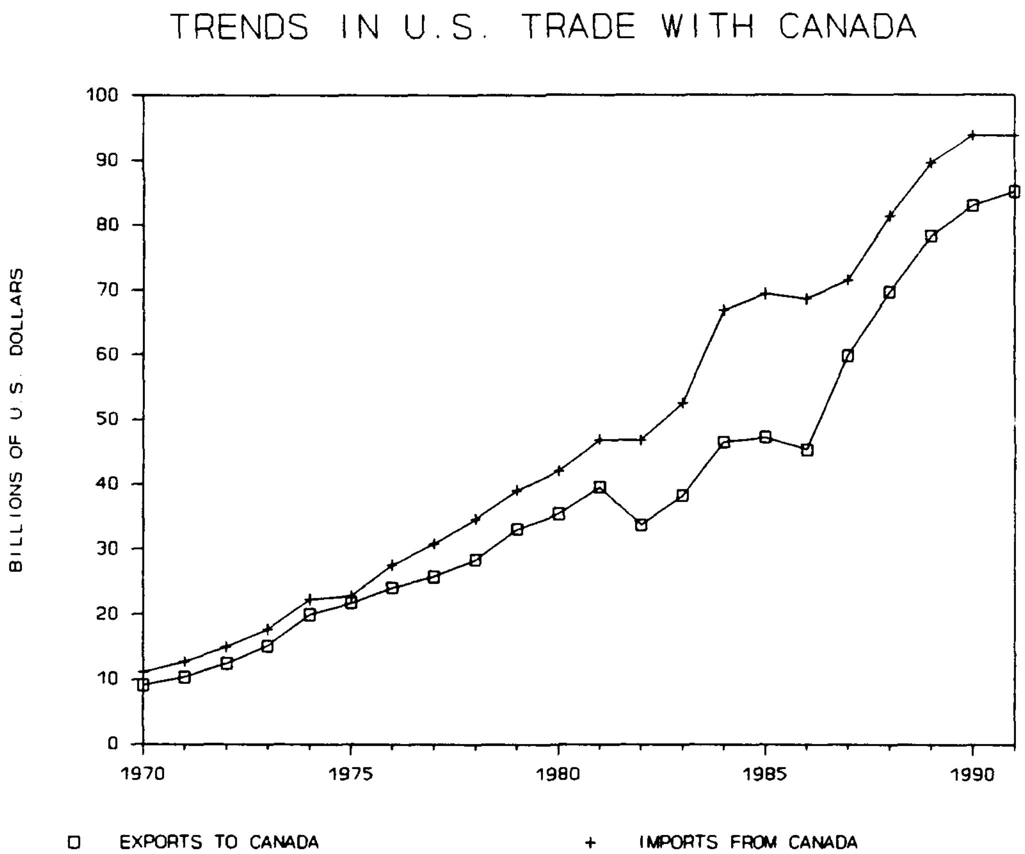
> "[NAFTA] is a rare strategic opportunity to secure, strengthen, and develop our continental base, economically and politically, in a way that will promote America's foreign policy agenda, our economic strength and leadership, and US global influence." [4]

BACKGROUND ON U.S./CANADA TRADE

Trade between the United States and Canada has always been important. The benefit of a long and relatively open border, mutual defense and strategic goals, and a common cultural background have all lent to exceptional cooperation amongst these two sovereign states. Canada and the United States are partners in many endeavors and share the largest bilateral trading relationship in the world. The Canada-U.S. Free Trade Agreement

signed in 1989 was just a first step in the latest round of economic cooperation. Even without the North American Free Trade Agreement, trade has grown rapidly. In 1991, the United States imported $107.6 billion worth of goods from Canada, or 19 percent of the total U.S. imports, while Canada imported $93.7 billion in goods from the United States, or 20.4 percent of total U.S. exports.[5] Trends in trade growth between the United States and Canada are shown in figure (a).

Figure (a)



SOURCE: International Monetary Fund, Direction of Trade Statistics Yearbook, 1975, 1981, 1986, 1992, (Washington, D.C.) Table 111

BACKGROUND ON U.S./MEXICO TRADE

In the shadow of its neighbor to the North, Mexico looked inward for most of the last half century towards developing import substitutes and industrial protectionism. That policy is understandable in view of Mexico's desire to maintain an independent status and in her attempt to develop an internal manufacturing base. From the United States point of view, trade with Mexico was treated as a regional concern, with little interest in expanding the scope of trade and political partnership.

After World War II, Mexico followed the path of many Latin American nations to develop an internal manufacturing base. Import licenses were used to protect infant industries from foreign competition. Domestic content provisions and regulations were then enacted as additional steps to protect against importation of necessary materials for production. Finally, export obligations were imposed on foreign investors which forced those investors to export a proportion of their own or related production. Over time, trade structure became based on regulation. Domestic manufacturers came to rely heavily on government protection and growing subsidies in order to obtain external trade. Lacking innovation, Mexican production was no longer competitive on the global market.

In 1986, after accumulating a sizable debt, Mexico suffered the shock of falling oil prices. Oil, by 1985, amounted to 68

percent of exports. In 1986, oil export values fell from $14.77 billion to $6.31 billion. [6] Overall exports decreased by 26 percent. The economic crisis that ensued left Mexico with little or no choice. Since oil prices were low and historically unstable, exports of non-oil goods had to increase dramatically to keep the economy solvent.

In just the few short years since 1986, Mexico has dramatically changed her trade policy. Under President Miguel de la Madrid, clear action was taken to change the structure of trade by replacing regulations and license policies with tariffs, then ultimately lowering tariff rates. Mexico became a limited member of the General Agreement on Tariffs and Trade (GATT) in 1986 after several years of debate and the crisis of the oil slump. The process of joining GATT meant that Mexico gave up concessions on 373 import categories (4 - 5 percent of total import categories) and agreed to limit maximum tariff rates to 50 percent. [7] Obviously, this was a first step in an overall strategy to encourage growth of exports. That initial step brought significantly improved trade. Follow-on bilateral agreements with the United States brought investment and swift growth in exports. When Carlos Salinas de Gortari was elected president of Mexico, he encouraged faster and even greater reform. In 1991, after Canada and the United States had already achieved trade success in the Free Trade Agreement (FTA),

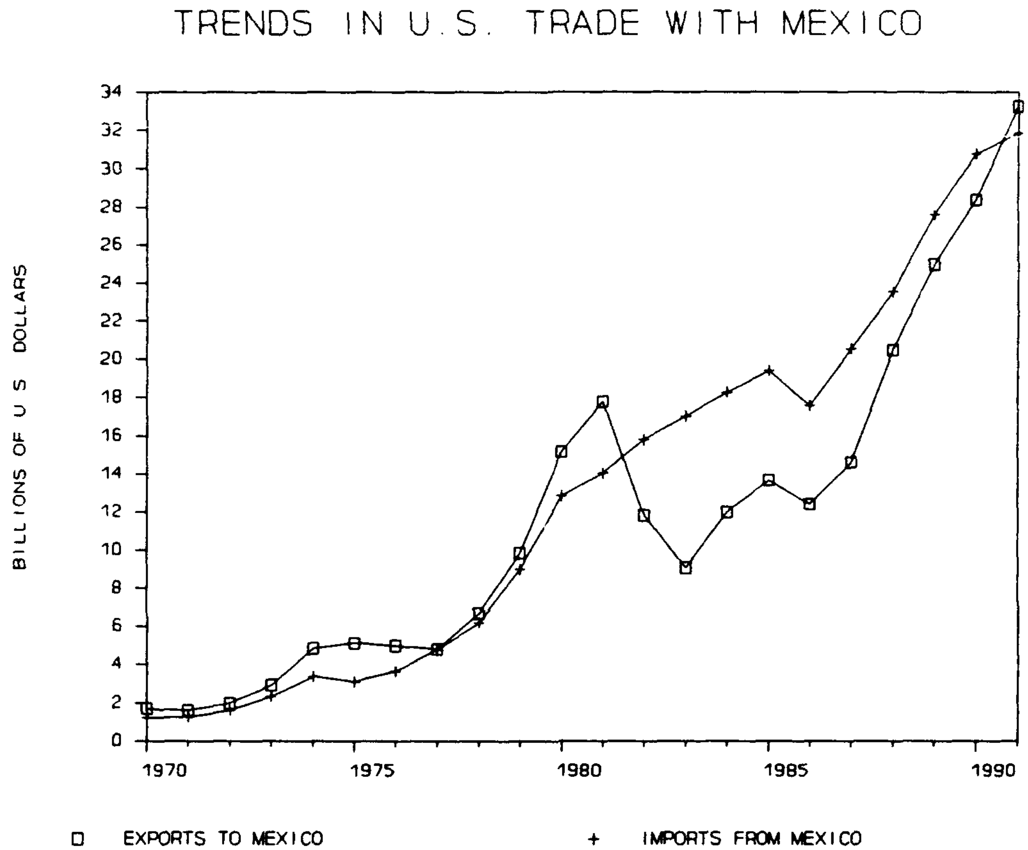
President Salinas, joined Canadian Prime Minister Mulroney and U.S. President Bush in formally proposing the North American Free Trade Agreement that would be beneficial to all. The North American Free Trade Agreement moved quickly from discussions to reality and is expected to be fully ratified by the end of 1993.

Due to Mexico's own internal economic reforms, reduction in average tariff rates, and an existing agreement permitting duty free import and export of materials for assembly in the Maquiladora program, Mexico has moved into position as the third largest trading partner with the United States. In 1991, the United States imported $31.8 billion worth of goods from Mexico or 6.3 percent of the total U.S. imports, while Mexico imported $33.3 billion worth of U.S. goods, or 7.9 percent of total U.S. exports. [8]

Figure (b) provides trends in growth of trade between the U.S. and Mexico.

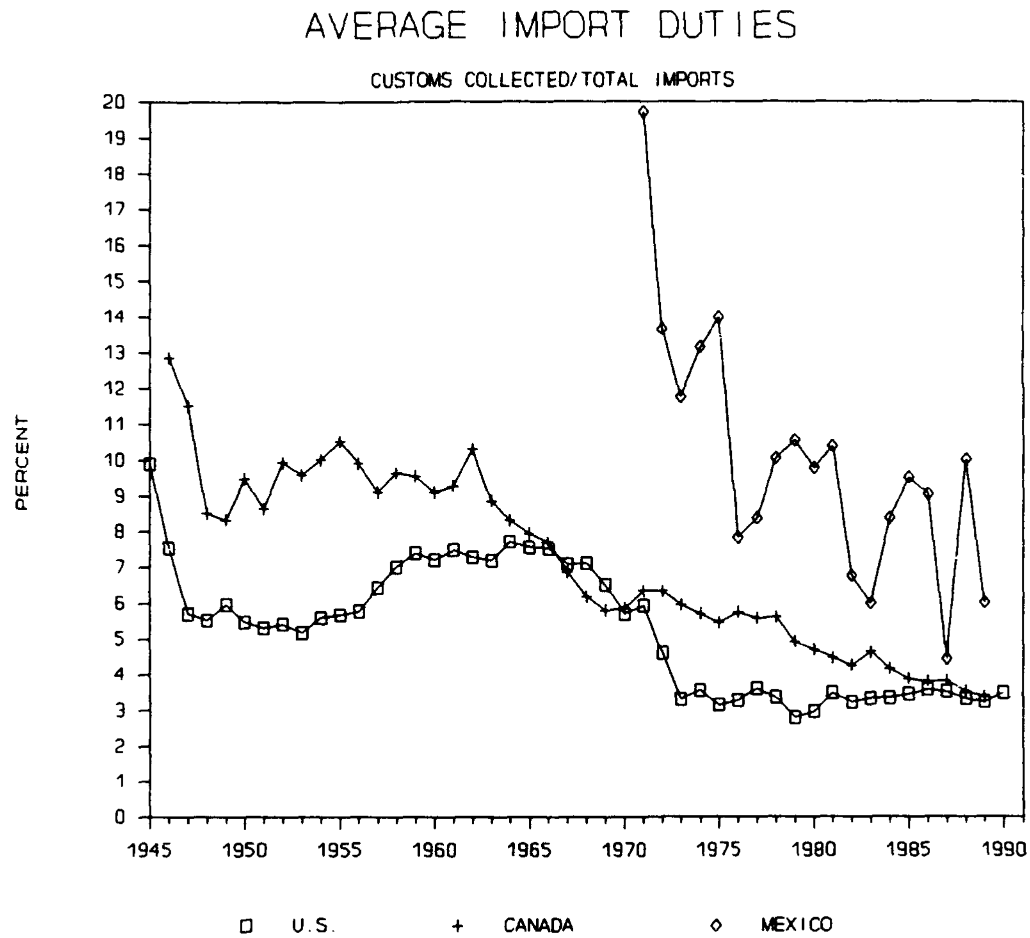
Although NAFTA provides reductions in tariffs, figure (c) shows that over the last several years, customs duties have been reduced in all three countries without the benefit of NAFTA. This is a reflection of a continuing global change in trade policies that has been brought about since World War II by the GATT.

Figure (b)



SOURCES: International Monetary Fund, Direction of Trade Statistics Yearbook, 1975, 1981, 1986, 1992, (Washington D.C.) Table 111

Figure (c)



SOURCES: Ministry of Industry, Trade and Commerce, **Canada Year Book**, 1981, 1985, 1988, 1990, 1992 (Hull, Canada); Statistics Canada, **Historical Statistics of Canada**, (Ottawa, 1983) Tables H1-18, G381-385; International Monetary Fund, **Government Finance Statistics Yearbooks**, 1980, 1983, 1990, 1992 (Washington DC.) Series 273 Table A; United Nations, **International Trade Statistics Yearbooks**, 1978, 1989 (New York); U.S. Bureau of the Census, **Historical Statistics of the United States, Colonial 7 mes to 1970**, (Basic Books, New York, 1975) Series U 207-212; Office of Ma .gement and Budget, **Historical Tables, Budget of the United States Government, Fiscal Year 1992**, (Washington D.C.) Table 2.5

NAFTA TODAY

On August 12th, 1992, President Bush announced that the United States, Canada, and Mexico had completed negotiation of the North American Free Trade Agreement. President Bush, Prime Minister Mulroney, and President Salinas signed the accord on December 17th. The legislatures from all three of the countries must now ratify the agreement. In the United States, newly elected President Clinton will be responsible for submitting implementing legislation to Congress, where Congress will have 90 legislative days to vote on its ratification. Under the Fast Track procedure, Congress can vote approval or rejection or they may change the implementing legislation, but they will not be able to add amendments to the treaty. The treaty is scheduled to take effect on January 1, 1994. [9]

The NAFTA is a broader trade agreement than has been the case in bilateral agreements. Applying to trade and economic issues without explicit political ties, it respects national sovereignty of its signatories. It is not an attempt to form a political union similar to that of the European Community. Nor does it present a trade bloc where nations outside NAFTA could only negotiate trade with the bloc instead of bilaterally with Canada, Mexico, or the United States.

Specific items covered by NAFTA include:

- Trade in Goods
- Agricultural Products
- Textiles and Apparel

- Automotive Goods
- Energy and Basic Petrochemicals
- Investment and Financial Services
- Intellectual property
- Monopoly and competition
- Temporary entry
- Unfair Trade Laws
- Dispute Resolution
- Labor Issues
- Environmental Issues
- Rules of Origin

There are extensive discussions on the pros and cons of NAFTA within newspapers and magazines. Public opinion is mixed. Although most studies based on economic models indicate that the long term effects will be positive for all three nations,[10] there will inevitably be problems, especially in the short term. As in previous agreements that have removed trade restrictions, those groups or industries that are the most efficient will fare the best, while those groups or industries that were protected or isolated from foreign competition will suffer. In the United States, the greatest areas of controversy are labor adjustments and environmental issues (discussed later).

From a strategic viewpoint, the Mexican, Canadian and U.S. economies each bring unique strengths, which together can be stronger to compete in world markets. NAFTA's contributions to the greater strength of the three nations include: stronger economies, a broader base of resources, standardization of industries, a revitalized labor force, and a base for expanded cooperation in the future.

TRADE AND A STRONGER U.S. ECONOMY

The strength of the United States is invariably linked to the long term strength of its economy. A prosperous nation can afford the costly expense of a strong military without degrading the quality of life of its citizens. Perhaps more importantly, a strong economy provides strength and confidence to our government, which can in turn tackle difficult foreign and domestic challenges. In "The Rise and Fall of Great Nations", Paul Kennedy asserts that economic power is inseparable from political and military power in the natural development of a nation. In the United States, we may hang onto military strength for many years, but our ultimate strength will come from the strength of our economy and what we can sustain for a long period. [11]

Trade is an increasingly important part of our economy. In 1991, U.S. world trade, defined as all U.S. exports plus imports, equalled 21% of our Gross Domestic Product (GDP).[12] Figure (d) shows the growth in trade as a component of GDP since 1970.

Figure (d)

NOTE: GDP includes exports of goods and services, imports of goods and services, private consumption, government consumption, gross fixed capital formation, and increase/decrease in stocks. Trade is defined as imports of goods and service plus exports of goods and services.

SOURCE: International Monetary Fund, International Financial Statistics Yearbook, 1992 (Washington, DC.) Table 111 & page xix

Centers of Trade

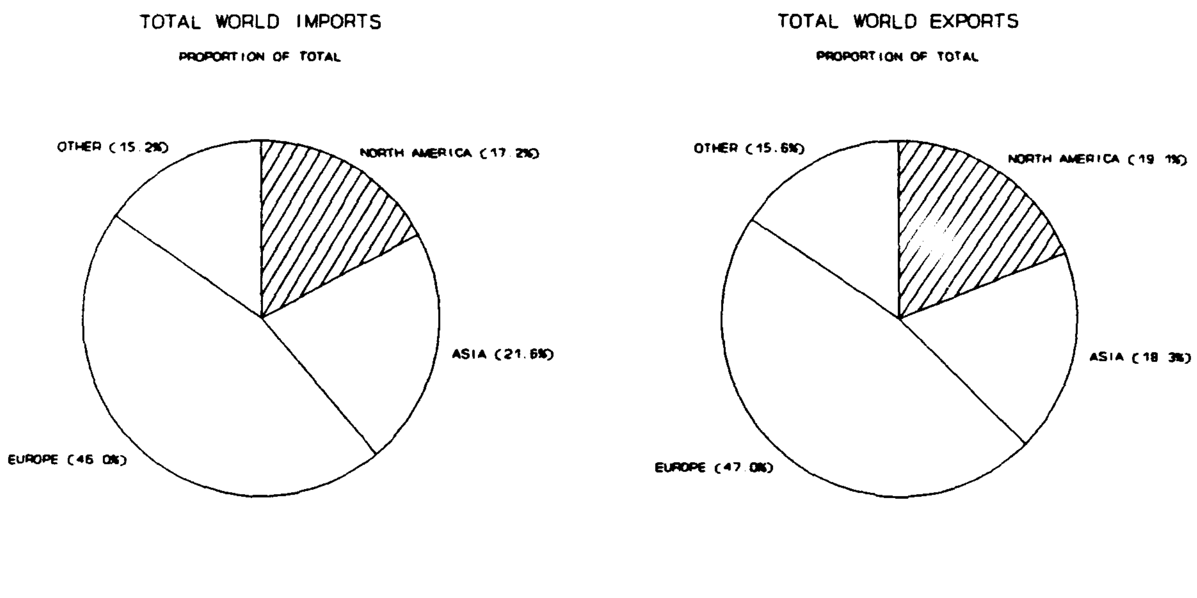
Three centers of global trade have evolved in the last two decades: Europe, North America, and Asia. In Europe, there is both the European Economic Community or EEC, and members of the European Free Trade Agreement (EFTA). The EEC is actually a part of the larger political union of the European Community (EC). The current members of the EEC are: France, Belgium, Germany, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Spain and Portugal with applications from Turkey, Austria, Malta, Cyprus, Sweden and Finland.[13]
The EEC has few barriers to internal trade and acts as a single body when dealing with external trade. The EC including the EEC is essentially evolving into a federation and already has power to create and enforce laws. The EFTA, on the other hand, is a trade association only with each nation representing itself in external trade. Members of the EFTA are: Austria, Finland, Iceland, Norway, Sweden, Liechtenstein, and Switzerland. The members of the EFTA are working to become trading partners with the EC in the European Economic Area. Together the EC and the EFTA conduct almost half of the world's trade. In 1990, they accounted for 47% of total world exports and 46% of total world imports. [14]

In Asia, there are several powerful trading nations. These nations could form an economic bloc, but have not needed to do so because of their individual successes. Japan alone accounted

for 11.4% of U.S. exports and 18.7% of U.S. imports in 1991. China, Korea, Taiwan, Hong Kong, Singapore, Thailand, and Malaysia have all gained rapid trade growth in recent years. These seven nations combined accounted for 14.1% of U.S. exports and 18.7% of U.S. imports in 1991. With Japan included, this group represents 25.5% of U.S. exports and 37.4% of U.S. imports. On a world basis, these Asian powerhouses of trade collectively represent 18.3% of total world exports and 21.6% of total world imports. [15]

By comparison, the pending NAFTA would create a North American trade area that represents 19.1% of total world exports and 17.2% of total world imports (1991 figures).[16] Figure (e) illustrates world trade by region.

Figure (e)



SOURCE: International Monetary Fund, **Direction of Trade Statistics Yearbook, 1992,** (Washington D.C.) Table 001

MILITARY COOPERATION OF U.S., CANADA, AND MEXICO

NAFTA has no direct impact on the armed forces of the three countries signing the agreement. In fact, NAFTA excludes defense related trade issues. Direct military sales to Canada and Mexico are conducted separately under the Foreign Military Sales program. In the case of Mexico, security assistance has been limited to training assistance under the International Military Education and Training (IMET) Program and financial aid in fighting illegal drugs. Total IMET assistance to Mexico was only $620,000 in FY 1991 and estimated to be $430,000 in FY 1992.[17] Although the U.S. and Mexico have not enjoyed the type of close military and security arrangements that the U.S. and Canada have, it should be noted that Mexico provided invaluable, but little known support to the United States during World War II when Mexico supplied multiple tanker ships and oil to the allied effort.[18] Mexico today is a non-aligned nation, totally independent of foreign military powers. This policy includes no military involvement with the United Nations or the Organization of American States.

No military assistance is provided to Canada. Instead, the United States and Canada have shared in the mutual defense of the North American continent since World War II. Throughout the war years, cooperation was in full depth from field to industry. The Ogdensburg (1940) and Hyde Park (1941) Declarations provided a framework for continental defense that included extensive economic and industrial cooperation.[19] Later, both nations

were active in the development of the North Atlantic Treaty Organization (NATO) and both were involved in the Korean conflict. In 1950, the Statement of Principles for Economic Cooperation formalized previous agreements. During the 1950's, the North American Aerospace Defense (NORAD) agreement and its network of Defense Early Warning (DEW line) radar sites, continued this mutual cooperation. In 1959, Canada was forced to drop its domestic fighter aircraft development program as too costly. This experience led to the realization that it was impractical for Canada to develop most major weapons systems on her own. The United States recognized the importance of Canadian industry and agreed to cooperate with Canada in defense production by sharing technology and improving access for Canadian industry in the U.S. defense market. These procedures were formalized by the Defense Production Sharing Agreements (DPSA). The DPSA was designed to support the effective use of U.S. and Canadian defense industries. Canadian industry was allowed to compete equally with U.S. firms for defense contracts. In practice, Canadian industries primarily evolved to become subcontractors for specialized components, although there are a few exceptions where larger programs have existed. In exchange for the involvement in the U.S. defense industrial base, Canada would purchase most of its major defense equipment from the United States, while the U.S. would purchase smaller support equipment or components from Canada on a roughly equal value

basis. The U.S. improved defense cooperation by the following methods:

o Restrictions to the Buy America Act were eliminated for many defense items and related supplies and raw materials.

o U.S. allowed duty free entry of these goods.

o U.S. permitted access to appropriate classified data.

o A procedure was established for reciprocal inspection, auditing, and listing of products and components on the qualified products list of each country.

In 1963, this agreement was further strengthened to include product development in order to promote technology advancements in both countries. The overall agreements became the Defense Development and the Defense Production Sharing Agreements (DD/DPSA).[20] As a further outgrowth of this development and production cooperation was the formulation in 1987 of the North American Defense Industrial Base Organization (NADIBO). The NADIBO is an organization designed to institutionalize the cooperation by sharing ideas and plans between Canadian and U.S. defense agencies. In addition to an Executive Committee, there are committees for: Requirements, Mechanisms, Data, and Education. Additionally, there is a specific Ammunition Task Force chartered to maintain adequate ammunition production capability for mobilization.[21]

The cooperation between Canada and the United States on defense industries is so extensive that the Defense Production

Act Amendments of 1990 included defining the domestic defense industrial base as:

> "(1) the industries in the United States and Canada which at any time are providing national defense material and services; and
> (2) the industries of the United States and Canada which reasonably would be expected to provide national defense materials and services in a time of emergency or war." [22]

This definition was expanded in 1992 by the Defense Authorization Bill to include technology by defining:

> "the term 'national technology and industrial base' means the persons and organizations that are engaged in research, development, production, or maintenance activities conducted within the United States and Canada." [23]

As was stated earlier, NAFTA does not address military and defense industry issues. The question is, "Will NAFTA lead to increased military and defense industry cooperation?" In my opinion the answer is, "No, in military cooperation involving Mexico" and "Yes, especially in defense industrial cooperation." If you look at military roles and missions, the militaries of Canada, Mexico, and the U.S. have very different goals. Each uniquely supports its government differently. In Canada, for instance, defense is centered on guarding the Arctic approaches and maintaining control of the seas along its coasts and the sea corridor to Europe. Canada maintains a military capable of deployment overseas, but participates mostly in peace keeping duties under UN auspices. The military of Mexico is focused on defense of its borders and coastlines. It does not have overseas deployment capabilities and remains non-aligned. The U.S.

maintains its global military reach with both defensive and offensive capabilities. Defense includes the capability of control of the seas and air superiority, although the area of coverage at any given time continues to decrease as our military contracts in size. Military cooperation between the U.S. and Canada has been firmly established through the North Atlantic Treaty Organization (NATO) and a myriad of bilateral agreements. Cooperation will continue to increase as the roles and missions of the two militaries become increasingly similar. Military cooperation between the U.S. and Mexico has been extremely limited. With Mexico holding a strongly non-aligned status, there is very little potential for direct cooperation even as our governments become more strongly tied through economic cooperation. President Salinas has demonstrated his interest in improving the infrastructure of Mexico. The military of Mexico may benefit as their roles and missions are adjusted to fit into the new infrastructure. There is far greater potential for increasing defense industrial cooperation as U.S. and Canadian defense firms look southward for labor and industrial resources. In 1992, recognizing that it is no longer possible to maintain an independent and self reliant industrial base in the United States or even within the Canadian/U.S. industrial base, U.S. Secretary

of Defense Cheney stated,

> "Because of the increasingly global nature of the industrial base, it is proposed DoD policy to identify and evaluate potential global industrial base and technology base deficiencies and vulnerabilities, and execute, where appropriate, bilateral and multilateral agreements to support surge and mobilization requirements." [24]

As part of that initiative, the Department of Defense is developing the Production Base Information System (ProBase) to disseminate collected information on the industrial base. [25]

STRATEGIC (RESOURCE) BENEFITS OF NAFTA

Although NAFTA makes no purely political or defense ties, it is important to look to the future in terms of potential mutual support in an emergency. Canada and Mexico are important sources of strategic raw materials. Canada is a producer of platinum group metals (4.9% of world total in 1984) and cobalt (6.4% of world total in 1984) and several other critical materials. [26] Of the 35 critical materials not available domestically, Canada provides 23. [27]

Mexico is considered a major source for the following non-fuel mineral materials: strontium, zinc, silver, cadmium, gypsum, copper, nitrates, and sulfur.[28] Mexico could additionally supply small amounts of antimony and manganese. Thus, Canada and Mexico are important sources of critical minerals in an emergency, and lend significantly to an improved resource base for North American security.

Both Canada and Mexico are important oil and natural gas producing nations. Mexico is estimated to have nearly as much

remaining oil available (89.4 billion barrels) as the United States (97.0 billion barrels).[29] Mexico has elected to continue its policy of restricting foreign investment in its oil industry, but Mexico has relaxed restrictions on U.S. capital goods imports that will improve Mexican oil production. That will eventually lead to an improved source of oil for the United States and all of North America.

As a resource, adequate skilled labor is very important for growth and national economic welfare. In the United States and Canada, there is plenty of labor available, but population growth rates have leveled off implying that labor; particularly skilled labor, will increase in demand. With education and skill levels in the U.S. and Canada roughly equivalent, manufacturing and industry have little difficulty in moving between the two countries. Education levels are, on average, lower in Mexico, but with a respectable literacy rate of 87 percent and a large labor pool available, there is a significant number of workers who are readily trainable and available at low labor costs. [30] The impact of NAFTA will undoubtedly include labor adjustments and dislocations in all three countries. A discussion of labor problems will be continued separately. From a strategic standpoint, however, access to an abundant labor pool means that there is a reserve of labor for surge during emergency mobilization.

The Environment and Employment

Headlines read, "Trade Pact Could Cost Up to 150,000 U.S. Jobs." [31] and "Congressional Study Sees Problems in Trade Accord." [32] An advertisement in the Washington Post glares out, "Without regard to the human impact of their decisions - Today, December 17, George Bush signs the North American Free Trade Agreement (NAFTA)." [33] These headlines and paid announcements call out some serious concerns about NAFTA; concerns that are held by a large number of Americans. The concern about the environment is primarily centered on the fear that U.S. firms will move their operations to Mexico to take advantage of low enforcement rates on environmental laws. The government of Mexico has been sensitive to this criticism and have included environmental reform into much of their economic reform. Mexico's 1988 environmental law is comparable to U.S. laws and is, in some cases, stricter.[34] Enforcement has been improved, especially in Mexico City, where dramatic steps are working to improve the atmosphere and along the U.S./Mexico border where environmental compliance by Maquiladora plants has improved significantly.[35] Provisions in NAFTA and in parallel environmental discussions provide a multitude of safeguards for the environment. Parallel discussions also provide for joint cooperation and enforcement. The experience with Maquiladora plants is that they are generally environmentally state of the art, hence, the cost for the plant is roughly equivalent to plant costs in the United States. Pollution abatement costs represent

only a small share of total production costs for most U.S. industries.[36] Thus, fears that U.S. firms will move to Mexico to avoid environmental regulations and costs are generally unfounded. The greatest problem with the Maquiladora plants is that the infrastructure within the community cannot fully support the proper disposal of wastes. With increased trade and an improved Mexican economy, more is being spent to improve the infrastructure. The net effect appears to be improvement in the environment of North America as economic growth provides the means to enforce environmental laws in Mexico and provides capital for infrastructure investment (i.e. health and sanitation improvements), more efficient and cleaner manufacturing plants, and a rise in living standards to the point where individual citizens become more critically aware of poor pollution practices. The World Development Report, 1992 argues that prosperity (at the level that Mexico is expected to experience) encourages concern in the environment when basic needs are met and quality of life issues become more important to the populace.[37] A Princeton study by Grossman and Krueger provides empirical data to support these conclusions.[38] At least on a government to government basis, environmental concerns have been fully addressed. While environmental issues must be considered in individual trade agreements, they are properly being integrated into the total political and social efforts to improve global ecology. In this case and in order to be successful, Mexico must have time and support to build an environmental

infrastructure. Attaining strict environmental controls without underlying country-wide infrastructure to support those controls would be impossible.

LABOR

NAFTA poses unique challenges in the area of labor. The agreement proposes to join countries that are at widely different stages of economic development. Hourly labor rates are many times lower in Mexico and there are valid concerns that less-skilled workers in this country will lose jobs as companies relocate to take advantage of the low wages in Mexico. Many of these same less-skilled U.S. workers have already suffered during the recessions of the past five years. A study by the International Trade Commission indicates that:

> "Unskilled workers in the United States would suffer a slight decline in real income, but U.S. skilled workers and owners of capitol services would benefit more from lower prices and thus enjoy increased real income." [39]

In a dissenting view from the Report of the Advisory Committee for Trade Policy and Negotiations, labor representatives stated:

> "Workers have learned that when market forces are left to their own devices, they cannot be expected to bring sustained equitable economic growth and social progress. Many of the major achievements of this nation -- the establishment of minimum wages, the abolition of child labor, the development of work place health and safety laws, the creation of environmental protection, and the right to collective bargaining to protect the individual were intended to temper and restrain some of the most brutal effects of the free market." [40]

Although not included in NAFTA, a separate Workers Adjustment Initiative was announced by President Bush to deal

with displacement caused by NAFTA. The Initiative was criticized by labor as being insufficient to significantly decrease the suffering caused by displacement. It does not include income support during training, does not continue health care during training and job search, and provides no specialized training to enhance a displaced worker's ability to find work. [41] While this represents a major concern with NAFTA, more recent and detailed studies consistently predict that there will be a slight net increase in jobs in the U.S. due to the effects of increasing exports to Mexico.[42] Assuredly, some workers and some industries will be displaced, but that trend has been continuing over the last ten years without NAFTA as industries increasingly face world competition. [43] Most importantly, NAFTA will not significantly accelerate the process of market shifts that are already taking place in the world economy.

There is an additional concern that between ten and fifteen years from now there will be enormous immigration pressure from Mexico when large numbers of farmers are displaced due to expanding sales of U.S. and Canadian corn in Mexico. The NAFTA buffers drastic changes in agriculture trade by granting a fifteen year schedule for eliminating agricultural barriers. Mexico recognizes the potential for large displacements and is betting on its strategy of rapid growth in industry to accommodate workers from a large farm migration. NAFTA is expected to add 600,000 jobs for Mexico.[44] Should that strategy fail, the U.S. could face as many as 700,000 unemployed Mexicans

illegally seeking jobs in the U.S. [45] Both of these figures are probably extremes. There will be considerable adjustments in Mexico, but I predict that the jobs created in manufacturing will substantially offset those lost in agriculture. The promise of strong economic growth under the direction of President Salinas diminishes the likelihood that Mexico will face large numbers of unemployed workers. Furthermore, I predict that immigration pressure on the U.S. border will diminish dramatically because historically it has been those who have no hope in improving their conditions who reluctantly move to another country. With a successful NAFTA, the economy of Mexico will be a bright source of pride and optimism for most citizens. Mexican workers will naturally seek opportunities in their own country.

Security Impact

While any increase in cooperation and economic partnership will lend to the strength and security of the nations involved, NAFTA provides little direct military impact. As more manufacturing develops in Mexico, and as the borders become more transparent to the transportation of products, two security concerns arise:

(a) Technology security. Both intellectual property protection and the security of military sensitive information may be jeopardized in Mexican plants. Mexico, in NAFTA, has agreed to provide full intellectual property protection. Further concerns could be minimized by limiting Mexican fabrication and

assembly to standard non-sensitive products. I recommend a policy that will limit access to critical design information and military components that are of unique military value. Fabrication and assembly information on standard components provide little information to a third party that is not available by disassembly and reverse engineering of a finished product.

(b) Industrial base considerations. As manufacturing shifts between the three countries in adjustment to market efficiencies, some areas of industrial capability may be lost that are of potential value for mobilization. Since defense industrial ties between Canada and the U.S. are already well established, the problem is in losses of unique capabilities to Mexican industry. In the absence of separate defense industry agreements, there may be little that the U.S. or Canada can do short of maintaining adequate stockpiles of parts and material to support emergency response needs. I recommend development of industrial agreements between the three countries by expanding NADIBO as required to retain availability of equipment and materials.

NAFTA - Model for World Economic Development

At the end of the Cold War, competition changed its character. Underdeveloped nations struggle to give its citizens an acceptable style of life. Developed nations struggle to keep their citizens in comfort. Economic battles have replaced military and propaganda battles. There is tremendous temptation

to react protectively to guard against economic losses. Protectionism has tremendous appeal to citizens who are afraid of change. Economic protectionism has visited this country before. In the 1930's, tariffs were enacted to protect those jobs that were painfully won after the Depression. Protectionism came again to protect jobs following World War II. Protectionism left us with a legacy of inefficiency. Protectionism guarded against competition, but removed the incentive to upgrade and improve. It slowly degraded efficiency. After each period of protectionism, the U.S. has had to readjust. In a cycle that included high unemployment and societal upheaval, we had to go through a period of economic pain before achieving growth and vibrancy in the economy. Protectionism would invariably lead to trade wars and a spiral of more protection. Trade wars sometimes lead to political discord and military wars as nations continue to become more dissatisfied with trade imbalances.

NAFTA is an effort to expand the princip~~als~~les of free trade in North America. Although it can potentially foster the appearance of an economic bloc, it is not intended for that purpose. There are several reasons. First, all three countries continue to independently pursue global free trade through the GATT. Secondly, NAFTA does not establish external barriers - it does not act as a bloc. Further, NAFTA initiatives are modeled after GATT procedures. Essentially, nothing in NAFTA takes anything away from any other trade agreements. It does provide mutual benefits for its members and in that sense appears as a bloc, but

it is best characterized as a positive example of progress in free trade. The experience of NAFTA may provide our best arguments for global free trade. In that sense, it is our best example for continuing to encourage free trade through GATT.

CONCLUSION

While NAFTA is strictly an economic agreement that has limited political and military implications, NAFTA appears to be a step in the continued strengthening of all of North America. The agreement provides the United States with a continuing supply of labor. It holds the promise of increasing the market base for U.S. goods and improving domestic employment. The agreement has the potential to significantly expand the accessibility of strategic minerals and oil on the continent through anticipated U.S. and Canadian investment in Mexican resource development and with additional access of capital goods to domestic investors in Mexico. NAFTA gives Mexico's economic reforms greater legitimacy. That legitimacy will encourage needed foreign and domestic investment in Mexico to fuel economic growth. That growth in turn, provides the needed economic strength to Mexico to manage a large debt (owed predominantly to U.S. banks), improve infrastructure, improve environmental protection and enforcement, and develop a stronger government of democracy. Furthermore, as Mexico continues to look to the North in her partnerships with Canada and the U.S., there are bound to be positive political benefits in the future.

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